MR. M. N. PARAMESVARAN PILLAI (*Municipal Councils*): But when he is sworn in he becomes a member of one of the two Houses.

PRESIDENT: Yes. That is why he is being asked to take the oath.

Rao Bahadur A. Rengaswami Aiyar then took the oath and signed the rolls.

RAO BAHADUR A. RENGASWAMI AIYAR (*Financial Secretary to Government*): Sir, I rise to present the Budget Estimates and the usual financial statements for the year 1112.

Before reviewing the financial position for the current and ensuing years, I shall, as usual, explain briefly the results of the last completed financial year (1110).

ACTUALS 1110.

2. The ordinary revenue and expenditure charged to revenue for the year 1110 were Rs 227·02 lakhs and Rs 231·47 lakhs respectively against the revised estimates of Rs 238·44 lakhs and Rs 232·95 lakhs. The year thus closed with a deficit of Rs 4·45 lakhs as against a revenue surplus of Rs ·49 of a lakh anticipated in the revised estimates.

MR. K. P. NILAKANTA PILLAI (*Chirayinkil* cum *Nedumangad*): May I know whether the rules permit any one else to read the speech of the Financial Secretary?

PRESIDENT: The speech is being read now.

MR. M. N. PARAMESVARAN PILLAI (*Municipal Councils*): Can it not be taken as read, Sir?

PRESIDENT: Please raise your voice a bit, Mr. Rengaswami Aiyar.

RAO BAHADUR A. RENGASWAMI AIYAR (*Financial Secretary to Government*): Yes, Sir.

This was the result of a fall in the anticipated revenue by Rs 6·42 lakhs offset by a saving in expenditure of Rs 1·48 lakhs.

The fall in revenue was mainly under Land Revenue (3·34), Excise (1·77), Excise duty on matches (·53), Stamps (1·66), Registration (·41), Interest (·86) and Miscellaneous (·48). Under Land Revenue, the decrease was due to the several measures of relief granted to ryots such as seasonal and general remissions and the grant of extension of time for the payment of tax due for 1110 to the end of Kanni 1111. The fall under Excise was under "Tobacco", due mainly to the decrease in consumption as a result of rise in the price of Coimbatore tobacco. The Excise Duty on matches actually received was less than that anticipated. Under Stamps and Registration the fall in revenue was due to the prevailing economic depression. Under Interest, the fall was under "Interest on investments,—Shares and Deposits in Industrial Concerns." The revenue under Taxes on Income, and Buildings, Communications, etc. was however better than the revised estimates by Rs ·97 of a lakh and Rs ·71 of a lakh respectively.

LIBRARY ARCHIVES Kerala Legislative Assembly

On the expenditure side, there was a net decrease of Rs 1·48 lakhs being the result of aggregate savings under a number of heads offset by increases in others. The main increase was under Education (·69), due to increased expenditure under Grants-in-aid to non-Government institutions. The receipts from the sale of Government lands and Capital expenditure not charged to revenue, amounted to Rs ·88 of a lakh and Rs 5·24 lakhs respectively against the revised estimates of Rs ·85 of a lakh and Rs 5·20 lakhs.

As a net result of the year's transactions, both ordinary and capital, the Government balance which was expected to stand at Rs 113·17 lakhs in the revised estimates for 1110 was reduced to Rs 108·22 lakhs at the close of the year.

3. I shall now proceed to consider the revised estimates for 1111. Before doing so, I shall explain here a change of classification that has been adopted in the above estimates and the budget estimates for 1112 in regard to the allocation of expenditure between Capital and Revenue.

I would invite a reference to the observations made in paras (1) and (8) of the Financial Secretary's speech last year, introducing the Budget Estimates for 1111, in which he explained that, in future, capital expenditure would be met out of borrowed funds as far as possible.

The whole question of the principles governing the allocation of expenditure between capital and revenue and the method of financing capital schemes has been examined further, and it has been decided to adopt, as a rule, the following principles and policy on the subject :—

Schemes will be classed as productive, if they are likely to yields on an average, a net return of not less than 5 per cent. to Government on the capital invested thereon from its commencement and will be classified under "Capital not charged to revenue." In British India the test of productivity is that the revenue derived from a project should, within a prescribed period of years, repay the annual interest on the capital invested thereon at 6 per cent. The period prescribed is, in the case of Irrigation Projects, ten years after the closure of the construction estimate of the Project, and in the case of Hydro-Electric and other Electric Schemes about four years after the opening of the Revenue Account. Capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility will also be classified under "Capital not charged to revenue," even though it is not productive according to the above criterion, if the expenditure is relatively considerable and so large that it cannot be reasonably met out of current revenues. This is based on the principle that capital expenditure on such schemes involves, the creation of tangible assets of considerable value, necessary in the public interests, that it benefits

LIBRARY ARCHIVES Kerala Legislative Assembly

future generations also, and that it should be charged to "Capital not charged to revenue" as it cannot be reasonably met out of the current revenues of a single year.

The method of providing funds for capital schemes whether productive or non-productive is purely a question of finance to be decided with reference to the resources of Government available from time to time, and does not affect the above classification. Capital expenditure may be financed from the following sources :—

(*a*) Surplus revenues of the current year.
(*b*) Accumulated surplus balances of previous years.
(*c*) Unfunded debt such as balances available from Savings Bank or other deposits in the hands of Government.
(*d*) Sums borrowed in the open market.

If it is met out of current revenues of the year, the expenditure is recorded under "Expenditure charged to revenue," if from other sources, under "Capital expenditure not charged to revenue." The expenditure on schemes treated as non-productive according to the test of productivity above mentioned should not, ordinarily, be met out of borrowed funds. If, on account of the lack of surplus balances, such expenditure is met out of borrowed funds, it is essential to make arrangements for the amortisation of the debt. In the case of productive schemes which are financed from borrowed funds and which are confidently expected to yield a return of not less than 5 per cent on the capital invested, provision for a sinking fund will also be made as far as the revenue position admits, in order to enable the repayment of the sums borrowed to be made easily when the debts mature.

The above principles are in strict accordance with the orthodox canons of finance and accounting and also with the practice followed in British India.

4. It has been the practice here to show the expenditure on productive schemes under Debt Heads and to carry any surplus revenue of such schemes over the prescribed return of 5 per cent to a separate reserve account. It is proposed to continue this practice at any rate for the present. I may mention that in British India, the entire revenue from such schemes is taken to the credit of the current revenues.

In accordance with the principles of classification explained above, the expenditure on the following non-productive schemes, has been classed under "Capital not charged to revenue" in the Revised Estimates for 1111 and the Budget Estimates for 1112, instead of under "Expenditure charged to revenue" as provided in the Budget Estimates for 1111.

(i) Construction of the Council Chamber.
(ii) Widening and making improvements to certain important roads which form part of the Town Planning Scheme.
(iii) Acquisition of lands and construction of Military buildings which form part of the Military Re-organisation scheme.
(iv) Purchase of Travancore House, Madras.

LIBRARY ARCHIVES Kerala Legislative Assembly